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C O N F I D E N T I A L VILNIUS 000224

SIPDIS

E.O. 12958: DECL: 03/01/2016

TAGS: [ENRG](#) [EPET](#) [PREL](#) [LH](#) [VE](#) [RS](#)

SUBJECT: LITHUANIA'S REFINERY LOOKS TO VENEZUELA TO BALANCE  
RUSSIAN SUPPLY PROBLEMS

REF: A. 05 VILNIUS 1224

[1](#)B. 05 VILNIUS 1186  
[1](#)C. 05 VILNIUS 1007  
[1](#)D. 05 VILNIUS 781  
[1](#)E. 05 VILNIUS 380  
[1](#)F. 05 VILNIUS 326

Classified By: Economic Officer Scott Woodard for reasons 1.4 (b) and (d)  
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[1](#)1. (U) ACTION REQUEST: This cable contains an action request; please see paragraph seven.

[1](#)2. (C) SUMMARY: Nelson English, General Manager of the Mazeikiu Nafta (MN) oil refinery in the Baltics, told the Charge that his company is considering a supply deal with the Venezuelan state-owned oil company PDVSA. English said that the deal would solve a serious supply problem that MN has faced since the demise of Yukos, which is MN's majority owner. The GOL is apparently unaware of this possible deal. English wants to solve his business problem, but does not want to create political problems for the GOL by proceeding with a deal that could complicate the GOL's close friendship with the USG. We request instructions on how to advise English. END SUMMARY.

A SUPPLY PROBLEM, AND A POSSIBLE SOLUTION  
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[1](#)3. (C) Mazeikiu Nafta General Manager English, an American citizen, called on the Charge March 2 to inform the USG that he is negotiating a contract with PDVSA for regular supplies of Venezuelan crude oil. (He said that one of his Venezuelan interlocutors claims to be a cousin of Chavez's.) Under the terms of the potential contract, Lithuania would import approximately two million tons of crude per year. The annual value of the contract would be about USD 840 million. English said that interruptions of supplies of Russian oil since the beginning of the Yukos breakup has left MN with monthly shortfalls of approximately 150,000 tons. MN covers this shortfall through various expensive and unreliable Russian sources, and English said that he has spent a lot of time looking for alternate sources of supply.

[1](#)4. (C) English told the Charge that the Venezuelan option offers several advantages for MN (and, by extension, Lithuania). According to English, these advantages would include:

- filling the refinery's supply hole;
- saving MN money (the Venezuelans are offering a good price); and
- diversifying supply, thereby reducing dependence on Russia.

[1](#)5. (C) English added that the crude on offer would work well in the MN refinery because it has many of the same characteristics as the Ural crude that MN currently uses, and would blend well with it. He stressed that the deal was fully commercial and transparent; there are no unusual strings attached.

FAR FROM A SURE THING  
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[1](#)6. (C) English commented that he thinks the chances of this deal happening are "less than 50-50." He noted that Russian interests like Transneft are likely to be displeased by MN's activism in securing alternate suppliers. He said he is under no illusion that PDVSA under the Chavez regime is an inherently more stable supplier than Russia. Finally, he recognized that the GOL (MN's minority share-holder), despite its eagerness to diversify energy supplies, will not want to jeopardize its close friendship with the USG. English stressed that the deal with Venezuela is an MN initiative, not something that the GOL is complicit with or even aware of yet.

COMMENT AND ACTION REQUEST  
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[1](#)7. (C) English is a regular Embassy contact and wants to make sure that his prospective commercial deal with PDVSA won't land the GOL in trouble with us. We request guidance on how to respond to this proposal.

